

Message Text

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PAGE 01 SANTO 01086 042142Z

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 INT-05 FEA-01 /090 W

----- 130698

R 042100Z MAR 76

FM AMEMBASSY SANTO DOMINGO

TO SECSTATE WASHDC 6287

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E.O. 11652: N/A

TAGS: EFIN, DR

SUBJECT: PRESIDENT BALAGUER'S VIEWS OF 1976 ECONOMIC PROSPECTS FOR
DR

REF: (A) 75 SANTO DOMINGO 5616, (B) SANTO DOMINGO TOAID A-08, (C)
SANTO DOMINGO 985, (D) SANTO DOMINGO 994, (E) SANTO DOMINGO 1033

1. FOLLOWING IS SUMMARY AND BRIEF ASSESSMENT OF PRESIDENT BALAGUER'S
STATEMENTS ON 1976 DR ECONOMIC PROSPECTS IN ANNUAL INDEPENDENCE DAY
SPEECH FEBRUARY 27. MORE DETAILED ANALYSIS FOLLOWS IN AIRGRAM.

2. PRESIDENT BALAGUER EXPRESSED BELIEF THAT CONTRARY PESSIMISTIC
FORECASTS OF MOST EXPERTS (SEE REF B) IT WAS QUOTE POSSIBLE UNQUOTE
ECONOMIC SITUATION WOULD IMPROVE IN 1976 DESPITE DECLINE IN EXPORTS
FROM 1975 LEVEL. AS GROUNDS FOR OPTIMISM, HE SPECIFIED A) INCREASE
IN EXPORTS OF GOLD AND SILVER, B) THE ABSENCE OF OUTSTANDING SHORT-
TERM DEBTS, C) EXPECTATION AGRICULTURAL PRODUCTION WOULD NOT BE
ADVERSELY AFFECTED BY WEATHER CONDITIONS AS IN 1975, D) GREATER
DOMESTIC SAVINGS AND INVESTMENTS, AND E) CAREFUL GOVERNMENT VIGI-
LANCE OVER ECONOMIC CONDITIONS WHICH WOULD ENABLE APPLICATION OF
IMPORT RESTRICTIONS IF NECESSARY. TO CONSERVE FOREIGN EXCHANGE,
HE PROPOSED TO PROHIBIT ALL LUXURY IMPORTS, TO CUT SUPERFLUOUS

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PAGE 02 SANTO 01086 042142Z

FOREIGN EXCHANGE EXPENDITURES FOR NEW EQUIPMENT AND PUBLIC WORKS,

AND TO RESTRICT UNNECESSARY FOREIGN TRAVEL FOR PLEASURE.

3. THE PRESIDENT ACKNOWLEDGED IMPORTANCE OF MAINTAINING BALANCE-OF-PAYMENTS EQUILIBRIUM BUT EMPHASIZED IT WAS MORE IMPORTANT TO MAINTAIN THE RHYTHM OF ECONOMIC GROWTH. HE EXPRESSED RESERVATIONS ON INCURRING NEW FOREIGN INDEBTEDNESS, OPINING THAT THE COUNTRY SHOULD TRY TO MAINTAIN CURRENT PACE OF DEVELOPMENT FROM INTERNAL RESOURCES, EXCEPT FOR CERTAIN URGENT WORKS, SUCH AS THE PORT OF HAINA, AND OTHER PUBLIC WORKS PROJECTS NOW IN CONSTRUCTION, SUCH AS DAMS AND IRRIGATION CANALS, WHICH, THOUGH THEY WOULD NOT SHOW RESULTS FOR MANY YEARS, WOULD HAVE SUFFICIENT FUTURE BENEFITS TO WARRANT CONTINUED EXTERNAL FINANCING. NON-PRODUCTIVE PROJECTS OF SECONDARY IMPORTANCE WOULD NOT BE FINANCED.

4. BALAGUER HOPED IMPROVE FOREIGN EXCHANGE PROSPECTS BY OBTAINING MORE FAVORABLE TERMS FROM FOREIGN-OWNED MINING COMPANIES (REF E) AND BY RESCHEDULING PL-480 DEBT REPAYMENTS (REF C).

5. COMMENT: EMBASSY ESTIMATE THAT TOTAL EXPORT RECEIPTS IN 1976 WILL DECLINE BY \$212 MISSION REMAINS A REASONABLE ONE. DOMINICAN CENTER FOR THE PROMOTION OF EXPORTS (CEDOPEX) ESTIMATES 1976 EXPORTS WILL FALL \$209 MILLION. WHILE CITING A SHARP RISE IN EXPORTS IN 1975 AS THE MAIN FACTOR IN SUSTAINING A REASONABLY RAPID RATE OF GROWTH, BALAGUER FAILED TO NOTE THAT A SHARP DECLINE IN 1976 COULD HAVE THE OPPOSITE EFFECT. GODR PROBABLY IS STILL HOPING THAT A RISE IN SUGAR PRICES WILL AMELIORATE THE SITUATION.

6. TO RESOLVE THE BALANCE-OF-PAYMENTS PROBLEM, BALAGUER SEEMS TO BE MORE INCLINED TOWARD AUSTERITY IN IMPORTS AND PUBLIC EXPENDITURES THAN TO SIGNIFICANTLY INCREASED FOREIGN INDEBTEDNESS. QUESTION ARISES WHETHER CONTEMPLATED AUSTERITY MEASURES AND OTHER MEANS SUCH AS DEBT RENEGOTIATION WILL MAKE SUFFICIENT FOREIGN EXCHANGE AVAILABLE TO SUSTAIN A LEVEL OF IMPORTS COMPATIBLE WITH SATISFACTORY GROWTH. PUBLIC INVESTMENTS WILL HAVE TO BE INCREASED TO OFFSET THE NEGATIVE EFFECT OF DECLINING EXPORTS, AND THEY WILL REQUIRE ADDITIONAL FOREIGN LOANS.

7. WITH ITS GOOD CREDIT STANDING AND LOW DEBT-SERVICE RATIO, THE COUNTRY COULD READILY BORROW FROM US AND EUROPEAN COMMERCIAL BANKS LIMITED OFFICIAL USE

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PAGE 03 SANTO 01086 042142Z

AND THE IMF. (EMBASSY AIRGRAM ON FINANCING LIKELY BALANCE-OF-PAYMENTS GAP WILL FOLLOW.)

8. THE PRESIDENT'S SPEECH DID NOT DEAL WITH PROBLEMS OF DOMESTIC INFLATION AND MONETARY CREDIT POLICIES, MATTERS WHICH ARE EXPECTED BE DISCUSSED BY GOVERNOR OF THE CENTRAL BANK IN HIS FORTHCOMING ANNUAL SPEECH.

9. BOTH LEADING SANTO DOMINGO PERIODICALS, LISTIN DIARIO AND EL CARIBE, WERE QUICK TO OPPOSE PROPOSAL TO RESTRICT DOMINICAN TOURIST TRAVEL ABROAD, NOTING LIKELY INEQUITIES INHERENT IN ANY ADMINISTRATIVE SYSTEM AND INFRINGEMENT OF FUNDAMENTAL RIGHTS. NOT CLEAR WHAT PRESIDENT INTENDED IN WAY OF RESTRICTIONS OR HOW HE WOULD IMPLEMENT A GENERALIZED LIMITATION ON TRAVEL ABROAD. VIRTUALLY ALL FOREIGN EXCHANGE FOR FOREIGN TRAVEL BY DOMINIAN TOURISTS IS NOW OBTAINED THROUGH PARALLEL MARKET.

10. SINCE ALMOST ALL LUXURY IMPORTS ARE ALSO FINANCED THROUGH PARALLEL MARKET IT WOULD NOT BE POSSIBLE TO RESTRICT THEM BY OFFICIAL FOREIGN EXCHANGE CONTROLS. OUTRIGHT RESTRICTIONS ON SUCH IMPORTS WOULD ENCOURAGE SMUGGLING AND OTHER FORMS OF EVASION. BALAGUER'S SPEECH MADE NO REFERENCE TO SIGNIFICANT INCREASES OF IMPORT TARIFFS.

11. BALAGUER' STATEMENTS ON 1976 ECONOMIC PROSPECTS WERE GENERALLY GUARDED AND NON-SPECIFIC. THE HARD DECISIONS NECESSARY TO MAINTAIN DR ECONOMIC GROWTH DESPITE LIKELY BALANCE-OF-PAYMENTS CONSTRAINTS STILL REMAIN.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ESTIMATES, SPEECHES
Control Number: n/a
Copy: SINGLE
Draft Date: 04 MAR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976SANTO001086
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760084-0030
From: SANTO DOMINGO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760395/aaaadflh.tel
Line Count: 136
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 SANTO DOMINGO 5616
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 22 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 JUL 2004 by coburnhl>; APPROVED <04 NOV 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PRESIDENT BALAGUER'S VIEWS OF 1976 ECONOMIC PROSPECTS FOR DR
TAGS: EFIN, ECON, DR, (BALAGUER, JOAQUIN)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006